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DAYTON HUDSON CORPORATION ANNUAL REPORT

1991

A CONVERSATION WITH THE MANAGEMENT:
- REVIEWING 1991 PERFORMANCE
- IMPROVING FUTURE PERFORMANCE
- INVESTING IN COMMUNITIES

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CORPORATE PROFILE

Dayton Hudson Corporation is a growth company focused exclusively on retailing. As one of America's largest retailers, our strategy is to provide consumers with the latest trends and exceptional value through multiple retail formats ranging from discount stores to moderate-price and high-fashion/full service department stores. At year-end, we operated 770 Target, Mervyn's, Dayton's, Hudson's and Marshall Field's stores in 33 states.

ABOUT THE COVER

Helping customers complete their transactions quickly and easily is an important part of Target's commitment to fast, fun and friendly service. And fast service is only part of what makes Target's new Greatland super store format, shown here, so popular. In addition to great prices on a wide assortment of trends and basic items, Greatland features many innovations that make up-scale discount shopping more comfortable, exciting and convenient.

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OUR 1992 STRATEGY

"LAST YEAR WAS DIFFICULT, DISAPPOINTING AND UNACCEPTABLE. WE HAVE FOUR OBJECTIVES FOR 1992: INCREASE MARKET SHARE IN ALL DIVISIONS, LOWER THE EXPENSE RATE AT EACH DIVISION, IMPROVE EARNINGS AND LOWER THE DEBT RATIO. LONG TERM, WE ARE COMMITTED TO PROFITABLE GROWTH IN MARKET SHARE AND IN FINANCIAL PERFORMANCE." KENNETH A. MACKE

(Millions of Dollars, Except Per-Share Data)	1991	1990	Percent Change
For the Year			
Revenues	$16,115	$14,739	9%
Net earnings	$ 301	$ 412	(27%)
Fully diluted earnings per share	$ 3.72	$ 5.20	(28%)
Cash dividends declared per share	$ 1.46	$ 1.35	8%
At Year-End			
Common shares outstanding	71,235,000	71,062,000	
Number of shareholders	12,416	12,826	
Retail square feet	80,309,000	73,769,000	
Number of stores	770	708	

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I AM DISAPPOINTED WITH DAYTON HUDSON CORPORATION'S PERFORMANCE IN 1991. WE SIMPLY DID NOT PERFORM TO THE STANDARDS THAT WE HAVE SET FOR OURSELVES AND THAT I EXPECT US TO ACHIEVE. EVEN IN THE ECONOMICALLY WEAK AND HIGHLY PROMOTIONAL ENVIRONMENT WE EXPERIENCED, WE UNDERSTAND THAT IT IS ESSENTIAL TO DELIVER RESULTS. I WANT TO ASSURE YOU THAT ALL OF OUR ENERGIES ARE FOCUSED ON PROFITABLE GROWTH, EVEN IN THE MOST CHALLENGING ENVIRONMENT.

Kenneth A. Macke, Chairman and Chief Executive Officer, surrounded by a dominant presentation of bicycles and sporting goods at one of Target's new Greatland super stores.

In 1992, I am confident we will see tangible benefits from the programs and systems we have put in place. Companywide, we are driving down the cost of doing business. Our large investments in advanced technologies, especially in the area of distribution, ensure that a greater percentage of our revenue will flow to the bottom line. In addition, we have found it necessary for our divisions to focus even more narrowly on who their customers are, in order to increase our share of consumers' discretionary income. We believe this "targeted marketing" will result in sound market share growth.

This annual report features our operating division chief executives. I have asked them to address — and to illustrate — our firm resolve to drive costs down, keep our strategies competitively superior and deliver improved financial results.

I believe good merchandising is a hallmark of successful retailers. In today's competitive environment, good merchandising and customer service must be combined with good distribution. We know, for example, that the technological enhancements we have made in the last several years will result in more efficient, cost-effective distribution.

Specifically...

• Target is now using a computer-based scheduling system to set the arrival of deliveries at its distribution centers. This new system has increased Target's efficiency in matching staff hours and equipment with the arriving freight.

• To improve productivity at its distribution centers, Mervyn's now uses lasers to scan and track bar-coded merchandise within the distribution system. An advanced computer system has also dramatically cut the time and costs required to repack shipments for individual stores.

Driving costs down assures profitable growth opportunities.

Because customers today are less loyal, it is vital for us to know what is important to them. Each of our operating divisions is communicating with its customers to make sure the customers know what they can expect from us. We know it is very important to be in sync with today's ever-changing customers.

Specifically...

• Target's customers today want more value in addition to trends, quality and convenience. In mid-1991, Target implemented a chain-wide value strategy using advertising

and in-store signing to emphasize its great prices on basics and trends. We are responding with store formats that provide wider aisles, better signing, more customer assistance, faster check-outs, hot trends, excellent quality and fashion.

"I want to assure you that all of our energies are focused on profitable growth, even in the most challenging environment."

• Mervyn's customers want great value on moderately-priced, good quality private-label and brand merchandise in easy-to-shop stores. Over the years, Mervyn's has concentrated on its product development process, and the quality and fashionability of its merchandise has constantly improved. The clarity of Mervyn's visual presentations is also better geared to today's time-starved customers. This year, Mervyn's is adjusting its merchandise mix to expand its offering of lower price points.

• The Department Store Division's customers demand fashionable, high-quality merchandise, superior service and good value. Dayton's, Hudson's and Marshall Field's today offer approximately 50 designer labels — more than most competitors worldwide. Service in the form of greater comfort in the store, better in-stock positions and knowledgeable sales consultants all continue to receive high marks from customers, who also like our expanded offering of quality value items.

We will continue to meet the competition head-on in each of our strategies.

In every annual shareholders' report, I have discussed the importance we place on keeping a long-term view. Overall financial strength continues to be our goal. This year, I am making a commitment to four performance objectives:

1. We will increase our market share in all three divisions.
2. We will lower our expense rate throughout the Corporation.
3. We will improve earnings.
4. We will lower our debt ratio.

Our goal is to exceed 15% earnings growth next year and beyond through continued physical growth of 7 to 10% per year, through continued increases in comparable-store sales of 3 to 5% per year, and through improved profitability as our stores mature. We also intend to reduce our debt ratio by an average of 2 percentage points per year over the next five years.

Dayton Hudson remains steadfast in our commitment to corporate responsibility. We will not be changing our guideline of giving 5% of our federally taxable income. We know the health of our communities is important to our business. Giving is a long-term strategy we take very seriously. We wish more corporations — and more of our competitors — shared this commitment to the future.

We are equally proud of our 168,000 talented and dedicated employees, many of whom are actively involved in their communities.

"In 1992, I am confident we will see tangible benefits from the programs and systems we have put in place."

The membership of our Board of Directors changed during the year. David T. Kearns, a director since 1987, was named United States Deputy Secretary of Education and therefore resigned from the Board. David T. McLaughlin, a director since 1976, retired after 15 years of service to the Corporation. We appreciate the thoughtful contributions of both of these directors. In December, John R. Walter, Chairman and Chief Executive Officer of R.R. Donnelley & Sons Company, was elected a director, bringing the total number of directors to 14. Mr. Walter is one of 12 outside directors.

In April 1992, Henry T. DeNero became Vice Chairman and Chief Financial Officer of the Corporation. He will play an active role in our strategic and operational planning. He was formerly a Director with McKinsey & Company, Inc.

My enthusiasm and confidence in our future success is real. It is based on the knowledge that we have established high standards and the certainty that we can meet our goals. We are well positioned for profitable growth in 1992...and beyond.

Sincerely,

Kenneth A. Macke
Chairman of the Board and
Chief Executive Officer

April 3, 1992

ROBERT J. ULRICH
Chairman and
Chief Executive Officer
Target

WALTER T. ROSSI
Chairman and
Chief Executive Officer
Mervyn's

STEPHEN E. WATSON
Chairman and
Chief Executive Officer
The Department Store
Division

A Conversation with Management

"SO FAR, THE 1990s HAVE BEEN DIFFICULT FOR MOST RETAILERS. ACHIEVING STRONG PERFORMANCE GAINS IS MORE CHALLENGING THAN EVER BEFORE. OUR 1991 PERFORMANCE WAS NOT ACCEPTABLE, AND WE ARE TAKING STEPS TO MAKE SURE IT IMPROVES IN 1992. IN THE FOLLOWING PAGES, THE CHIEF EXECUTIVE OFFICERS OF OUR THREE OPERATING DIVISIONS COMMENT ON OUR 1991 PERFORMANCE AND HOW WE WILL IMPROVE RESULTS IN 1992 AND BEYOND." KENNETH A. MACKE

Reviewing 1991 Performance

"DESPITE ACHIEVING RECORD REVENUES IN 1991, OPERATING PROFIT DECLINED AT ALL THREE OF OUR OPERATING DIVISIONS. THE DECLINE IN OVERALL PROFITABILITY CANNOT BE BLAMED SOLELY ON THE SOFT ECONOMY; SOME OF THE REDUCTION CAN BE ATTRIBUTED TO COSTS ASSOCIATED WITH THE CHANGES WE IMPLEMENTED, MANY OF WHICH ARE ALREADY BENEFITING PERFORMANCE. WE FULLY EXPECT TO REPORT SIGNIFICANTLY IMPROVED PROFITS IN 1992 — EVEN IF THE ECONOMIC CLIMATE DOES NOT REBOUND MARKEDLY." KENNETH A. MACKE

Mervyn's is continually improving the quality, fashionability and pricing of its moderate private-label merchandise, which appeals to a diverse base of value-conscious, time-pressured customers. In 1991 alone, Mervyn's cut one month out of its product development cycle, enabling it to bring customers the latest trends and colors more quickly. Mervyn's will continue to refine its value offering in 1992.

Q: HOW WOULD YOU SUMMARIZE DAYTON HUDSON'S PERFORMANCE IN 1991?

A: MACKE We expected a difficult year in 1991, and our expectation was realized.

On the plus side, the Corporation's total revenues increased 9% despite the difficult economic climate and the lowest consumer confidence level in 17 years. Overall, comparable-store revenues rose 2% in 1991. Target's revenue increased with the mid-year implementation of its value strategy and its continued new-store expansion. Mervyn's higher revenues were due to new-store expansion. The Department Stores' revenue increase was primarily a result of having a full year of Marshall Field's operations versus seven months in 1990.

Productivity on these revenue gains was down, however. Overall operating profit declined 10% as the improved revenues were offset by lower gross margin rates at each division. Target's improved operating expense rate was offset by the decline in gross margin rate due to the lower prices associated with its value strategy. Higher revenues at the other two divisions were offset by increased markdowns in the very competitive environment. In addition, earnings were penalized by our concentration of stores in California, which was hard-hit by the recession.

Throughout 1991, we took concrete steps to boost revenue growth, bring operating expenses down long term and position our operations for much stronger performance in 1992 and beyond. These efforts continue today; 1991 will not be repeated.

Q: WHAT WERE THE KEY ISSUES IN YOUR DIVISION'S 1991 PERFORMANCE?

A: ULRICH Target became more competitive in pricing and in advertising its values through in-store signing and presentation. This value strategy increased sales and provides for stronger future performance, but it resulted in a lower gross margin rate last year. We made progress in several areas, however. We improved the quality of our merchandise and our in-stock position. Cost controls enabled us to reduce expenses as a percent of sales. We also took some major steps to position Target for further growth: the expansion in Florida, the roll-out of Greatland and the successful introduction of a store format for smaller markets.

A: ROSSI Mervyn's 1% decline in comparable-store revenues was very disappointing, and it hurt both our expense rate and operating profit. Approximately 55% of our revenues are in California. The recession hit California harder than the rest of the nation. For the year, our California comparable-store revenue growth rate was approximately 8 percentage points lower than comparable-store revenue growth rates in non-California markets. Holiday revenues were below projections, and that affected our full-year results. There were bright spots. We entered the Southeast Florida market and saw strong sales growth in several newer markets. The strength in newer markets positions us for future revenue growth. Product quality and service both improved in 1991.

A: WATSON Overall, the Department Stores saw lower sales increases and more markdowns than expected. Our expense performance also fell short. One major positive was Field's performance, with its smaller stores delivering our strongest revenue gains due to intensified advertising and bolder merchandising. Our service scored high marks again this year, as judged by customers in our annual store-by-store survey.

ROBERT ULRICH

WALTER ROSSI

STEPHEN WATSON

Q: WHAT IMPACT DID YOUR 1991 GROWTH HAVE ON MARKET SHARE?

A: ULRICH Target's store growth, coupled with our value strategy, strengthened our market share in the second half of 1991. We opened 43 stores last year, including an 18-store major expansion in Florida, 16 additional stores in existing markets, six new Greatland stores and three small-market format stores.

A: ROSSI Mervyn's opened 18 stores in 1991 including 10 in Southeast Florida — the largest major market entry in our history. Through acquisitions of high-quality real estate, we significantly increased our presence in Florida and the state of Washington. With these expansions, our market share continued to grow in key non-California markets.

A: WATSON The Department Stores benefited from a full year of Field's operations. We were pleased with strong sales growth at Field's smaller stores and our newer Twin Cities and Wisconsin stores. Our stores continued to be preeminent in their core markets, with market share growing slightly in Chicago, declining slightly in Detroit and holding steady in the Twin Cities.

Now that we have fully absorbed Field's, we are devoting our attention to improving

Easy shopping. Great values. Dominant assortments of trend merchandise and life's essentials. Those are the watchwords at Target's Greatland super store format. During 1991, Target's great prices were emphasized through in-store signing and advertising. The value strategy had a significant impact on Target's results last year and will help Target meet competition head-on in the 1990s.

merchandising and service in all of our markets. Trend and value improvements are key aspects of our effort.

Q: DO YOU BELIEVE YOUR OFFERING WAS POSITIONED CORRECTLY IN 1991?

A: ULRICH Yes. Given customers' increased value orientation, we felt it was appropriate to showcase Target's lower and moderate price points. We were very pleased with our customers' responses to our value strategy. They also recognized the improved quality and fashionability of our softlines.

A: ROSSI Mervyn's continued to build more quality into our private-label products to heighten our value offering. Although we aggressively pursued our promotional strategy in 1991, we clearly need to pay even more attention to pricing in 1992.

A: WATSON The Department Stores' sales events in 1991 were much stronger than ever before. We also introduced more "value items," which are priced below equivalent brands, and we narrowed our fashion assortments to offer more focused presentations. We believe these measures, combined with our program of fewer promotional days, positioned us well in 1991. We will improve upon this approach in 1992.

Q: WHAT DID YOU LEARN FROM THE DEPRESSED 1991 HOLIDAY BUSINESS?

A: ULRICH The 1991 holiday season only intensified trends we've seen before. Consumers are demanding more value, and they're often choosing to find it at discounters. Our customers are also buying later in the season, closer to the time of actual need. Our challenge is to offer consistently great values and always be in-stock on the trends.

A: ROSSI Value is increasingly important to Mervyn's moderate-income customer. The holiday season signaled that we should look at ways to emphasize lower price points and be more aggressive on communicating our offering. We're following through on both fronts.

A: WATSON The Department Stores' 1991 holiday experience was mostly a function of the recession. More retailers do, however, believe the holiday season is becoming "post peak," meaning that many of our customers are buying gifts in advance of the season. Providing great value year-round is the route we're taking in 1992.

Q: WHAT DID YOUR DIVISION DO IN 1991 TO BE MORE PRODUCTIVE?

A: ULRICH We continued to expand Target's Quick Response partnership program. More than half of our merchandise volume is now replenished on a quick response cycle, which has greatly reduced lead times and boosted our in-stock position. Quick Response will continue to improve our inventory turnover.

A: ROSSI Mervyn's achieved a 20% improvement in productivity at our Northern California distribution center, reflecting recent technology investments for such systems as the "paperless pick" method of repacking shipments to stores and bar-code scanning throughout the distribution process. We've also taken about four weeks out of the product development cycle and two weeks from the preparation of tabloids.

A: WATSON The Department Stores have increased the number of vendors receiving orders electronically. Also, by working with fewer vendors, we now get quicker deliveries, first deliveries of new trends and more access to private label opportunities. The consolidation of our credit operations at one site also improved our productivity in 1991.

ROBERT ULRICH

WALTER ROSSI

STEPHEN WATSON

Improving Future Performance

"OUR DIVISIONS ARE PURSUING A COMMON GOAL: IMPROVE PROFITABILITY IN 1992 AND BEYOND. THE PRIMARY TASKS FOR THE NEXT FIVE YEARS ARE TO REDUCE THE OPERATING EXPENSE RATE, INCREASE MARKET SHARE, FINE-TUNE THE VALUE OFFERING, IDENTIFY THE CORRECT MERCHANDISE ASSORTMENT FOR EACH STORE AND DELIVER HIGHER LEVELS OF SERVICE MORE EFFICIENTLY. THESE EFFORTS ARE ESSENTIAL TO COMPETE SUCCESSFULLY IN THE SLOWER-GROWTH RETAIL ENVIRONMENT OF THE 1990s." KENNETH A. MACKE

The Department Store Division is a trend leader in its Midwestern markets, and one of its important casual trends for Spring 1992 is the baseball look. In trends and in basic merchandise, the Department Stores carry dominant assortments of the fashionable quality items customers want today. The division's presentation of new trends helps create impact and excitement in a comfortable, full-service environment.

Q: WHAT IS YOUR LONG-TERM VIEW OF THE RETAILING ENVIRONMENT, AND WHAT MUST DAYTON HUDSON DO TO SUCCEED?

A: MACKE The retailing environment is shifting. Baby boomers are reaching their peak earning — and saving — years and uncertain consumers are more value-conscious than ever.

In this slower-growth environment, America is clearly overstored. The industry is consolidating, with business flowing to a small group of the largest, most efficient retailers.

Dayton Hudson is one of the beneficiaries of this trend, but success is not automatic. We expect comparable-store revenues to increase by only 2 to 4% in 1992, and we can't rely on better gross margin rate for improved results.

To be successful in the 1990s, we must become more productive. Only then can we offer customers more value. A lower cost structure is "The Great Enabler," which gives us the flexibility and capability to increase market share. The plans we began implementing in 1991 should allow us to reduce our expense rate despite moderate sales growth in 1992. We will bring more to the bottom line this year and over the long term.

We will open 65 to 75 new stores in 1992 and plan to expand square footage by 7 to 10% per year through 1996.

Q: WHAT ARE YOUR TOP PRIORITIES IN 1992?

A: ULRICH Reducing Target's expense rate by 40 to 50 basis points is our top priority in 1992. We'll add stores without increasing corporate overhead, and apply technology to operate more efficiently. We'll also focus on micro-marketing, which ensures exactly the right assortment of merchandise for each store. Through our Total Quality program, Target employees will help us compete more effectively. We'll also aggressively communicate our offering to value-conscious customers.

A: ROSSI Mervyn's top objective is to drive comparable-store sales growth. To do that we must give customers responsive service and quality, fashionable merchandise at the right price. We'll also further reduce the time it takes us to bring trends into the stores, and achieve consistency in merchandise flow, presentation and in-stock position. Our goal is to bring our expense rate down 50 to 100 basis points this year. Our 1992 promotional strategy is strong and we'll be very aggressive at Christmas.

A: WATSON We plan to reduce the expense rate by 100 to 150 basis points at the Department Stores. We're taking aggressive action early in the year to accomplish it. We have trimmed positions throughout the organization and we're streamlining our distribution system. In the end, every business must focus on sales growth to be successful. We will continue to emphasize trend merchandising, narrower assortments and greater value to improve sales.

Q: TARGET AND MERVYN'S BOTH HAVE A STRONG PRESENCE IN CALIFORNIA. WILL YOU CONTINUE TO GROW THERE?

A: ULRICH Although business has been difficult in California over the last 18 to 24 months, California is understored on a per capita basis and we plan to continue expanding there. We have 106 stores in California, and we'll open seven more in 1992.

A: ROSSI California is home to many of Mervyn's most profitable stores and generates more than half of our sales volume. When the California economy softens, we are significantly affected. We're well positioned in California, and we believe it has tremendous long-term potential. We plan to open nine California stores this year.

ROBERT ULRICH

WALTER ROSSI

STEPHEN WATSON

Q: BEFORE WE TALK ABOUT YOUR FUTURE GROWTH PLANS, COULD YOU DESCRIBE YOUR DIVISION'S STRATEGY FOR MARKET SHARE GROWTH OVER THE PAST FIVE YEARS?

A: ULRICH Target's profitability has made it Dayton Hudson's fastest-growing division. Our primary growth objective has been to compete head-on with other large discounters. To do that, we've set up a micro-marketing system and developed store formats geared to different demographic markets. Greatland is a high-convenience format designed for metropolitan areas, while the small-market format is tailored for non-metropolitan communities.

Over the past five years, we've grown geographically, first in existing markets and then in growing markets in the Northwest, West, South and Southeast. Target's retail square footage has nearly doubled since 1986, with 217 new stores. We've invested $2.4 billion in construction, real estate acquisitions, remodeling and technology since 1986.

A: ROSSI Mervyn's slowed its new store growth in the late 1980s to focus on revitalizing and strengthening its format. We designed a new prototype store and have since remodeled 60% of our stores. We

During the 1980s, we sold our specialty retailing formats in order to concentrate on growing our large-scale formats. Target and Mervyn's have been our fastest-growing formats since 1986. In that time, our total retail square footage increased at an average compound annual rate of 11.8%, with growth coming primarily in the Pacific Northwest, West Coast, Southwest, Mountain, South and Southeast regions. In 1992, we will open another 65-75 stores by expanding further in existing markets in these regions.

upgraded merchandise quality, narrowed the assortment, improved the advertising and installed new technologies. Since 1986, we've grown square footage more than 40% and added 70 stores. We've expanded in California and in newer markets in the Southeast and Pacific Northwest. Mervyn's has invested $1.0 billion in remodels, new facilities and technology since 1986.

A: WATSON The Department Stores' objective has been to be the premier upscale, full-service retailer in its core markets. Our 1990 acquisition of Marshall Field's consolidated our position as the Midwest's premier department store retailer. Since 1986, we've invested $1.4 billion to keep stores fresh and replace several stores in key markets, in addition to acquiring Marshall Field's.

Q: WHAT ARE YOUR DIVISION'S TOP PRIORITIES FOR THE NEXT THREE TO FIVE YEARS?

A: ULRICH Target must continue to build market share. To do that, we will grow our store base. Most of Target's 40 to 50-store expansion in 1992 will fortify existing markets. We'll continue to roll out the Greatland format, opening 11 this year and including many Greatland features in our existing stores. We'll also test our small-market format outside of Minnesota in 1992. In 1993, we'll open approximately 15 stores in Chicago, where we eventually plan to have 40 to 50 stores.

To continue delivering value to our customers, we'll concentrate on finding less costly ways to do things, keeping technology on the leading edge, improving merchandise assortment and flow to each store and strengthening relationships with suppliers.

A: ROSSI Mervyn's first priority is growth in comparable-store sales and in overall market share. Mervyn's will open 20 to 25 new stores in existing markets in 1992. Over the next five years, we will continue to grow in the Southeast, expand in underserved markets in California and fortify existing markets.

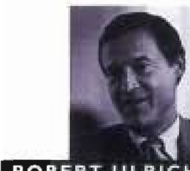
As we grow, we are focused on giving the customer more value and better service while lowering our expense rate. We are now incorporating changes in our headquarters operations which should be reflected in Mervyn's bottom line beginning in 1992.

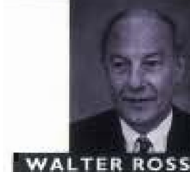
We'll continue to improve product development and merchandising so that we provide customers with an even better offering of quality, fashionability and price. Mervyn's will remain a promotional retailer.

A: WATSON Expense control is one of the top priorities for the Department Stores. We expect to reduce our expense rate significantly over the next five years as we become a lower-cost provider.

We'll do more to tailor merchandise assortments at each store and make better use of the data in our credit files to target our direct marketing. Innovation in efficient customer service through better signing and more exciting and understandable merchandise presentations is another focus area for us.

Increasing market share in existing markets will remain our prime growth objective. We'll continue our program of remodeling to keep our stores exciting. We expect Field's performance will contribute strongly to our overall results in 1993.


ROBERT ULRICH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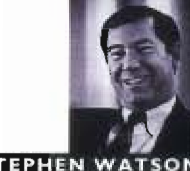
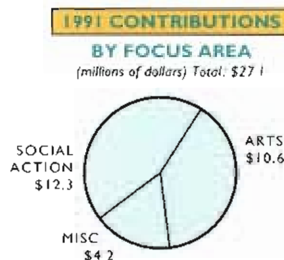

STEPHEN WATSON

Investing In Communities

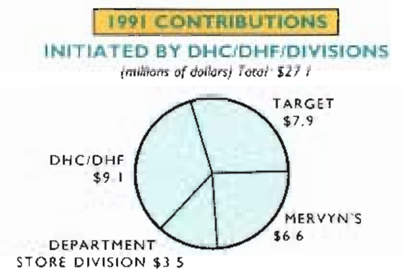
SINCE 1946, WE HAVE INVESTED FIVE PERCENT OF OUR FEDERALLY TAXABLE INCOME IN SOCIAL ACTION AND ARTS PROGRAMS IN THE COMMUNITIES IN WHICH WE OPERATE. GIVING IN 1991 TOTALED $27.1 MILLION.

1991 Contributions in Key States	Stores	Amount
California	215	$ 5,344,000
Florida	37	555,000
Illinois	24	1,328,000
Michigan	62	2,143,000
Minnesota	43	8,419,000
Texas	94	1,733,000
	475	**19,522,000**
Other States	295	7,566,000
Total	**770**	**$27,088,000**

1991 CONTRIBUTIONS
BY FOCUS AREA
(millions of dollars) Total: $27.1



1991 CONTRIBUTIONS
INITIATED BY DHC/DHF/DIVISIONS
(millions of dollars) Total: $27.1



Community investment is an integral part of our business strategy, providing us with leadership opportunities and enabling us to add value as community members. Community giving in the form of financial support and employee volunteerism enhances the identity of the Corporation and our divisions and helps differentiate us from our competitors. Ultimately, our investments contribute to healthier communities and customer bases. The three largest 1991 efforts supported by the Dayton Hudson Foundation (DHF) and our operating divisions exemplified this commitment.

FIVE-YEAR TOTAL CONTRIBUTION RECORD
(millions)

Family-to-Family, our widely recognized national program to improve the quality of family child care, reached a record 31 communities in 16 states. The program develops partnerships with local nonprofit agencies to recruit, train and accredit family child care providers. Family-to-Family was developed by Mervyn's in 1988. Target joined in supporting and expanding the program in 1990. It is a $10 million, seven-year commitment through 1994 by Mervyn's, Target and the Foundation. To date, Family-to-Family has trained 4,800 child care providers, who offer quality child care to an estimated 25,000 children annually.

Kids for Saving Earth, the international children's environmental awareness and action program co-founded and sponsored by Target, was honored at the United Nations during 1991. Kids for Saving Earth now has more than 17,000 chapters worldwide involving more than 500,000 children in learning about energy conservation, recycling, reducing pollution and protecting wildlife.

CASP, Dayton Hudson's innovative *Comprehensive Arts Support Program*, now supports the efforts of the largest arts organizations in Chicago and the Twin Cities to set annual strategic goals and engage in self-assessment. By achieving their goals, these organizations secure operating support and enrich our cultural life.

1991 FINANCIAL SUMMARY

Total revenues increased 9% to top the $16 billion mark.

Comparable-store revenues (revenues from stores open longer than 12 months) were up 2% for the year.

Gross margin rate was lower, reflecting a highly promotional retail environment and Target's value-pricing strategy. As a result, overall operating profit was $910 million versus $1,015 million last year.

Net earnings were $301 million, or $3.72 per share, compared with $412 million, or $5.20 per share, in 1990.

Dividends declared were $1.46 per share, an increase of 8% over 1990.

The Corporation invested $1 billion in remodeling existing stores, constructing new stores, improving distribution and upgrading systems and technology.

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REPORT OF MANAGEMENT

Management is responsible for the consistency, integrity and presentation of the information in the Annual Report. The financial statements and other information presented in this Annual Report have been prepared in accordance with generally accepted accounting principles and include necessary judgments and estimates by management.

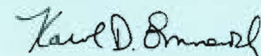
To discharge our responsibility, we maintain comprehensive systems of internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with established procedures. The concept of reasonable assurance is based upon a recognition that the cost of the controls should not exceed the benefit derived. After judging the cost and benefit factors, we believe our systems of internal controls provide this reasonable assurance.

The Board of Directors exercises its oversight role with respect to the Corporation's system of internal financial controls primarily through its Audit Committee, which is composed of six independent directors. The Committee oversees the Corporation's systems of internal controls, accounting practices, financial reporting and audits to ensure their quality, integrity and objectivity are sufficient to protect shareholders' investments. Their report appears on this page.

In addition, our financial statements have been audited by Ernst & Young, independent auditors, whose report appears on page 33. As a part of its audit, Ernst & Young develops and maintains an understanding of the Corporation's internal accounting controls and conducts such tests and employs such procedures as it considers necessary to render its opinion on the financial statements. Their report expresses an opinion as to the fair presentation, in all material respects, of the financial statements and is based on an independent audit made in accordance with generally accepted auditing standards.

Kenneth A. Macke
Chairman of the Board and Chief Executive Officer

Stephen E. Watson
President



Karol D. Emmerich
Vice President, Treasurer and Chief Accounting Officer

March 20, 1992

REPORT OF AUDIT COMMITTEE

The Audit Committee met twice during 1991 to review the overall audit scope, plans for internal and independent audits, the Corporation's internal controls, emerging accounting issues, officer and director expenses, audit fees and retirement plans. The Committee also met individually with the internal auditors and independent auditors, without management present, to discuss the results of their audits. The Committee encourages the internal and independent auditors to communicate closely with the Committee.

Audit Committee results were reported to the full Board of Directors, and the Corporation's annual financial statements were reviewed and approved by the Board before issuance. The Audit Committee also recommended to the Board of Directors that the independent auditors be reappointed for 1992, subject to the approval of the shareholders at the annual meeting.

(Millions of Dollars, Except Per-Share Data)

Our objective is to provide shareholders with a superior total return on their investment while maintaining a flexible capital structure. Total return consists of current dividend income and share price appreciation. Achieving this objective requires solid current earnings performance and profitable investment in new growth opportunities.

PERFORMANCE OBJECTIVES

Two primary performance objectives provide a framework for financial decision making:

Return on equity of 18%. Return on equity (ROE) was 13.5% reflecting weak operating performance during 1991. This performance compares with our 1990 ROE of 22.1%.

Average annual earnings per share growth of 15%. Fully diluted earnings per share decreased 28% compared with a decrease of 3% in 1990 and an increase of 55% in 1989. Over the past five years, earnings per share have grown at a compound annual rate of 7%.

Our capital investment over the past five years has supported square footage growth at a compound annual rate of 12%. Our continued growth in physical space, the improving return on investment (ROI) of maturing stores and the strong cash flow and resulting de-leveraging effect of existing mature stores combine to support our 15% EPS growth objective.

Achievement of our performance objectives depends largely on our ability to produce a superior ROI. ROI is defined as net earnings before financing costs as a percent of total investment. We believe ROI performance is the most important measure of financial performance and it is the primary financial tool used to manage our business. ROI is an important part of our evaluation of capital projects, appraisal of operating division performance and the incentive compensation system for management.

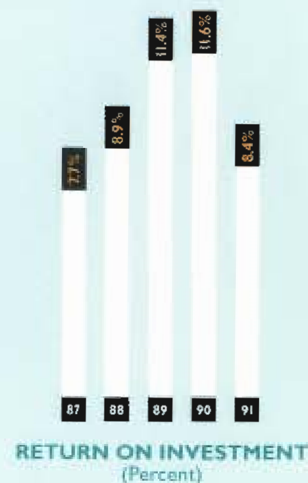
We use a growth-adjusted ROI curve which sets annual ROI standards for the life of a project and produces an internal rate of return of 13%. ROI for a new store is lower in the early years of its life reflecting start-up costs, lower sales and higher asset values due to lower accumulated depreciation. As stores mature, profitability improves and ROI increases, generating earnings growth.

RETURN ON EQUITY
(Percent)

EARNINGS PER SHARE
(Dollars)

RETURN ON INVESTMENT	1991	1990	1989
Return			
Net earnings	**$ 301**	$ 412	$ 410
Interest expense – after tax (a)	**251**	163	152
Interest equivalent in operating leases – after tax (b)	**27**	25	27
Earnings before financing costs	**$ 579**	$ 600	$ 589
Investment			
Working capital (c)	**$1,593**	$1,218	$1,221
Net property and equipment (d)	**4,525**	3,523	3,486
Other non-current assets	**341**	54	56
Present value of operating leases	**413**	395	414
Total investment at beginning of year	**$6,872**	$5,190	$5,177
Return on investment	**8.4%**	11.6%	11.4%

(a) Interest expense on beginning-of-year debt and capital leases.
(b) Assumes after-tax interest cost of approximately 6.5% on beginning-of-year present value of operating leases for 1991, 1990 and 1989.
(c) Current assets less non-interest bearing current liabilities.
(d) Includes capital leases.



RETURN ON INVESTMENT
(Percent)

DEBT RATINGS

Long-Term Debt:	
Duff & Phelps	A+
Moody's	A3
Standard & Poor's	A
Commercial Paper:	
Duff & Phelps	D-1+
Moody's	P-2
Standard & Poor's	A-1

CAPITALIZATION
(Millions)
Debt & Equivalents
Total Capitalization

CASH FLOW FROM OPERATIONS
(Millions)

FINANCIAL POLICIES

Capital structure decisions balance the lower cost of debt with the benefits of maintaining financial flexibility. The following policies guide our financial philosophy:

Maintain strong investment grade ratings on debt. Our debt ratings are listed to the left.

Maintain a year-end debt ratio within a range of 45% to 65%. A debt ratio range enables management to respond to changes in the economic and retail environments. The increase in debt ratio over the past several years reflects our taking advantage of several strategic opportunities–real estate acquisitions to facilitate Target's growth, stock repurchases and the acquisition of Marshall Field's.

Our debt ratio is expected to decline to about 55% by the mid-1990's even as we support continued capital investment. We are comfortable with the current leverage because cash flow from operations substantially exceeds our debt service. The debt service is very predictable as the debt is primarily long term (average maturity 12 years) with fixed rates (average 9.4%).

Limit future capital expenditure commitments to projected internally-generated funds. The allocation of new capital is based on current ROI performance and thorough evaluation of each major project. Capital is allocated first to keeping existing stores fresh and exciting to protect current market share. The next priority is building new stores in existing markets to enhance market share and leverage the existing expense structure. Then capital is used to build stores in new markets. These priorities provide the best prospects for achieving profitable long-term growth. While our capital planning process projects forward five years, less than 25% of the capital plan is committed. We have the flexibility to defer or cancel the remainder of our five-year capital plan, if necessary.

DEBT RATIO	1991	1990	1989
Debt and equivalents			
Commercial paper	**$ 265**	$ 104	$ 234
Long-term debt (a)	**4,415**	3,935	2,582
Present value of operating leases	**411**	413	395
Total debt and equivalents	**$5,091**	$4,452	$3,211
Capitalization			
Debt and equivalents	**$5,091**	$4,452	$3,211
Deferred income taxes and other	**381**	347	225
Convertible preferred stock	**377**	379	379
Common shareholders' investment	**2,231**	2,048	1,753
Total capitalization (b)	**$8,080**	$7,226	$5,568
Debt Ratio	**63%**	62%	58%

(a) Includes capital leases and current portion of debt and capital leases.
(b) Total capitalization for 1990 and 1989 has been restated to exclude the Loan to ESOP.

CAPITAL EXPENDITURES

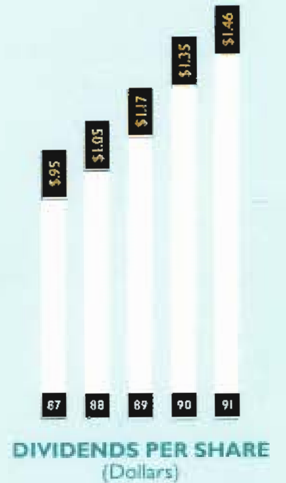
In 1991, capital expenditures totaled $1 billion. Capital expenditures for 1992 are expected to also be in the $1 billion range. In addition to remodeling existing stores, capital will be invested in new stores, improving distribution and upgrading systems and technology. The majority of capital expenditures continues to be allocated to Target due to its proven record of successful expansion and profitable growth.

SHAREHOLDER RETURN

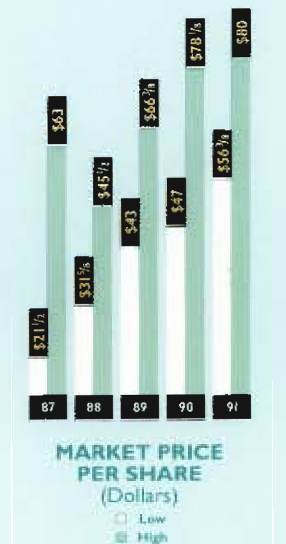
Dividends. To support our objective of providing shareholders with a superior total return on their investment, it is our policy to make regular annual increases in common stock dividends. Dividends declared in 1991 increased 8% to $1.46 per share, compared with $1.35 per share declared in 1990. The quarterly dividend paid in the first quarter of 1992 was increased to $.38 per share, representing an annualized dividend of $1.52 per share.

Market Price Per Share. The price of our common stock is determined by trading activity on the major stock exchanges. The price reflects the markets' view of our past performance and future prospects, as well as industry and general economic conditions. At March 26, 1992 there were 12,405 shareholders of record and the common stock price was $63 per share.

CAPITAL EXPENDITURES
(Millions)



DIVIDENDS PER SHARE
(Dollars)



MARKET PRICE
PER SHARE
(Dollars)
Low
High

CONSOLIDATED RESULTS OF OPERATIONS

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars, Except Per-Share Data)	1991	1990	1989
Revenues	**$16,115**	$14,739	$13,644
Cost and Expenses			
Cost of retail sales, buying and occupancy	**11,751**	10,652	9,890
Selling, publicity and administrative	**2,801**	2,478	2,264
Depreciation	**410**	369	315
Interest expense, net	**398**	325	267
Taxes other than income taxes	**283**	256	230
Total Costs and Expenses	**15,643**	14,080	12,966
Earnings Before Income Taxes and Cumulative Effect of Accounting Changes	**472**	659	678
Provision for Income Taxes	**171**	249	268
Net Earnings Before Cumulative Effect of Accounting Changes	**301**	410	410
Cumulative Effect of Accounting Changes	**–**	2	–
Net Earnings	**$ 301**	$ 412	$ 410
Primary Earnings Per Share:			
Net Earnings Before Cumulative Effect of Accounting Changes	**$ 3.86**	$ 5.41	$ 5.37
Cumulative Effect of Accounting Changes	**–**	.03	–
Net Earnings	**$ 3.86**	$ 5.44	$ 5.37
Fully Diluted Earnings Per Share:			
Net Earnings Before Cumulative Effect of Accounting Changes	**$ 3.72**	$ 5.17	$ 5.35
Cumulative Effect of Accounting Changes	**–**	.03	–
Net Earnings	**$ 3.72**	$ 5.20	$ 5.35
Average Common Shares Outstanding *(Millions)*:			
Primary	**71.5**	71.3	76.3
Fully Diluted	**75.9**	75.7	76.6

The financial statements should be read in conjunction with the Notes and *Analysis* contained throughout pages 21-33.

(Millions of Dollars, Except Per-Share Data)

ANALYSIS OF OPERATIONS

Total revenues for the year increased 9% to $16 billion despite the persistence of a difficult economic climate and the worst consumer confidence level in 17 years. The increase was driven by new store expansion and the full-year contribution of Marshall Field's operations versus seven months in 1990. Comparable-store revenues (revenues from stores open longer than 12 months) in 1991 were up 2%. These results compare with a total revenue increase of 13% and a comparable-store revenue increase of 3% in 1990.

Net earnings for the year were $301 million compared with $412 million in 1990 and $410 million in 1989. Fully diluted earnings per share were $3.72 in 1991 versus $5.20 and $5.35 in 1990 and 1989, respectively.

The following table illustrates the impact of the major factors contributing to the change in fully diluted earnings per share since 1989:

Variance Analysis	1991	1990
Prior year's fully diluted earnings per share	**$5.20**	$5.35
Change in fully diluted earnings per share due to:		
Revenues	**.75**	.91
Gross margin rate	**(1.27)**	.04
Operating expense rate	**(.09)**	(.67)
Start-up expense	**(.14)**	(.04)
Interest expense, net	**(.54)**	(.30)
Employee stock ownership plan, net*	**(.08)**	(.18)
Corporate expense and other	**(.11)**	.09
Fully diluted earnings per share	**$3.72**	$5.20

*Includes the interest expense impact from the ESOP (as defined on page 22) and the effect of related share repurchase.

REVENUES

Revenues for each operating division increased during 1991. Target's solid revenue increase was due to its value-pricing strategy and continued new-store expansion. Mervyn's revenue growth also reflects new-store expansion, while its comparable-store revenues were unfavorably affected by a severely depressed economy in its core markets of California, Arizona and Nevada. During the year, Target and Mervyn's increased their presence in Florida by opening 30 stores in key markets. The Department Store Division's (DSD) revenue increase was primarily due to the full year of Marshall Field's operations.

Revenue Growth	1991		1990		1989	
	All Stores	Comp. Stores	All Stores	Comp. Stores	All Stores	Comp. Stores
Target	**11%**	**4%**	10%	4%	17%	6%
Mervyn's	**2**	**(1)**	6	4	12	8
DSD	**17**	**1**	41	–	5	5
Total	**9%**	**2%**	13%	3%	14%*	6%

1989 was a 53-week year; percentages shown for 1990 and 1989 are on a 52-week basis.
*Excludes Lechmere.

One measure used to evaluate store productivity is revenues per square foot. Revenues per square foot in 1991 and 1990 were affected by the weakened economy. DSD's 1991 and 1990 decreases in revenues per square foot also reflect the impact of Marshall Field's historically lower revenues per square foot.

Revenues Per Square Foot* *(unaudited)* *(dollars)*	1991	1990	1989
Target	**$205**	$198	$197
Mervyn's	**224**	230	224
DSD	**215**	222	233

*Thirteen-month average retail square feet.

Finance charge revenues from sales using our internal credit cards are included in revenues.

Internal Credit	1991	1990	1989
Finance charge revenues	**$ 182**	$ 168	$ 161
Internal credit sales	**3,345**	3,083	2,653

GROSS MARGIN RATE

Gross margin rate (excluding buying and occupancy costs) deteriorated at all operating divisions, reflecting value-conscious consumers in a very weak economy and Target's value-pricing strategy.

Target's lower gross margin rate reflects reduced prices as part of implementing its value-pricing strategy to compete more effectively and gain market share. Higher markdowns, resulting from strong consumer response to advertised merchandise, also pressured the gross margin rate. These were partially offset by a LIFO credit of $.39 per share related to its implementation of an internally-generated price index (see page 32 for further discussion).

Mervyn's gross margin rate declined because of higher markdowns, reflecting its effort to drive sales and clear out seasonal merchandise in the difficult retail environment. Reduced LIFO expense partially offset the higher markdowns.

DSD's gross margin rate was lower than 1990 primarily due to an increase in its markdown rate. A reduced LIFO credit was also a factor in the gross margin rate decline.

A slight improvement in the overall gross margin rate in 1990 compared with 1989 was primarily due to the addition of Marshall Field's and strong inventory control at Target. Higher markdowns at Mervyn's and DSD, and a substantially higher overall LIFO expense, partially offset these favorable factors.

OPERATING EXPENSE RATE

Operating expense rate increased slightly in 1991 due to weak comparable-store revenue growth at Mervyn's and DSD. Reducing the operating expense rate will be a major focus at all three divisions in 1992.

Target's operating expense rate improved despite higher store expenses associated with customer service programs implemented in mid-1990. Strong expense control and solid revenue growth were the key factors in the expense rate improvement.

Mervyn's operating expense rate increased over 1990, following five consecutive years of improvement. While Mervyn's continued to maintain strong controls over expense growth, a year-over-year decline in comparable-store revenues resulted in an increase to the expense rate.

DSD's operating expense rate increased primarily due to a full year of depreciation resulting from the Marshall Field's acquisition, partially offset by efficiencies gained due to the integration of Marshall Field's operations.

The 1990 overall operating expense rate increased substantially from 1989 reflecting expenses associated with the acquisition of Marshall Field's and Target's implementation of enhanced service programs.

Operating expenses include buying and occupancy costs, selling, publicity and administrative expenses, depreciation and taxes other than income taxes. Rent expense, included in buying and occupancy, was $92 million, $95 million and $90 million in 1991, 1990 and 1989, respectively.

START-UP EXPENSE

Start-up expense, costs associated with opening new stores, increased in 1991 reflecting Target's and Mervyn's accelerated store growth. A total of 63 new stores were opened in 1991 compared with 54 new stores in 1990.

INTEREST EXPENSE

Interest costs increased significantly during 1991 due to higher levels of debt required for continued expansion and store-remodeling programs for Target and Mervyn's and a full year of interest for the Marshall Field's acquisition. In 1991, $756 million of new long-term debt was issued at an average interest rate of 9.1%. This resulted in an average interest cost on total long-term debt of 9.4% at year-end 1991.

Components of Interest Expense, Net	1991	1990	1989
Interest on debt	**$371**	$309	$267
Interest on capital leases	**14**	15	15
Interest impact of ESOP*	**26**	21	1
Interest cost capitalized	**(11)**	(8)	(10)
Interest income	**(2)**	(12)	(6)
Net expense	**$398**	$325	$267

*Includes interest of $36 million, $35 million and $2 million in 1991, 1990 and 1989, respectively, incurred on debt to finance the repurchase of common stock designated to satisfy future conversion requirements of the ESOP, offset by interest income received from the ESOP of $32 million, $34 million and $2 million in 1991, 1990 and 1989, respectively. The ESOP expense for the Corporation consists of both compensation expense and interest expense; the interest expense portion was $22 million, $20 million and $1 million in 1991, 1990 and 1989, respectively.

EMPLOYEE STOCK OWNERSHIP PLAN

The net impact of the employee stock ownership plan implemented in April 1990 includes the additional benefit and interest expense associated with the ESOP and the stock repurchase impact attributable to it. The ESOP impact also includes the reduction in the effective income tax rate due to the deductibility of preferred dividends paid to the ESOP and adjustments related to the fully diluted earnings per share calculation.

CORPORATE EXPENSE AND OTHER

Corporate expense and other includes corporate headquarters expense, corporate charitable contributions and other miscellaneous items. In addition, it includes the operating results of Lechmere through September 30, 1989, the effective date of its sale. Lechmere was sold for approximately book value plus selling expenses. This transaction was not material to the consolidated financial statements.

INCOME TAXES

Effective tax rates for the past three years vary from the federal statutory rates as follows:

Percent of Earnings Before Income Taxes	1991	1990	1989
Statutory rate	**34.0%**	34.0%	34.0%
State income taxes,			
net of federal tax benefit	**4.0**	4.6	4.3
Dividends on preferred stock	**(2.0)**	(1.4)	–
Other	**.3**	.6	1.2
Effective tax rate	**36.3%**	37.8%	39.5%

The lower tax rates in 1991 and 1990 compared with 1989 are primarily due to the tax benefit from the deductibility of dividends earned on the ESOP preferred stock ($25 million in 1991 and 1990) and lower earnings in 1991.

The components of the provision for income taxes for the past three years are as follows:

Income Tax Provision/(Benefit)	1991	1990	1989
Current:			
Federal	**$112**	$218	$231
State	**25**	49	46
	137	267	277
Deferred:			
Federal	**31**	(15)	(8)
State	**3**	(3)	(1)
	34	(18)	(9)
Total	**$171**	$249	$268

The deferred tax provision is comprised of the following temporary differences:

Deferred Tax Provision/(Benefit)	1991	1990	1989
Depreciation expense	**$24**	$ 19	$24
Installment sales deferred income	**–**	(32)	(33)
Inventory	**14**	(5)	(11)
Other	**(4)**	–	11
Provision for deferred taxes	**$34**	$(18)	$ (9)

Tax legislation eliminated installment sales reporting, with 1990 being the last year of a four-year transition period. The types of temporary differences shown in the preceding table are also those which give rise to the deferred income tax asset/liability.

In February 1992, SFAS No. 109 "Accounting for Income Taxes" was issued. The purpose of this statement was to reduce the complexity of adopting SFAS No. 96. The new standard is not expected to have a material effect on the Corporation's financial statements when adopted at the beginning of fiscal 1993.

CUMULATIVE EFFECT OF ACCOUNTING CHANGES

As of the beginning of the 1990 fiscal year, the Corporation adopted two accounting changes. The net cumulative effect of these two accounting changes was $2 million or $.03 per fully diluted share. The benefit of adopting the provisions of Statement of Financial Accounting Standards (SFAS) No. 96, "Accounting for Income Taxes," was $54 million or $.72 per share. The after-tax charge of adopting the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" was $52 million or $.69 per share.

EARNINGS PER SHARE

Primary earnings per share equal net earnings, less dividend requirements on ESOP preferred stock, divided by the average common stock and common stock equivalents outstanding during the period.

Fully diluted earnings per share are computed based on the average common stock and common stock equivalents outstanding during the period. The computation assumes conversion of the ESOP preferred stock into common stock. Net earnings also are adjusted for the additional expense required to fund the ESOP debt service, which results from the assumed replacement of the ESOP preferred dividends with common stock dividends.

ACQUISITION OF MARSHALL FIELD'S

The $1,054 million acquisition of the common stock of Marshall Field & Company was completed on June 23, 1990. Marshall Field's operating results are included in the financial statements from June 24, 1990, the effective date of the acquisition. The effect of the acquisition on 1991 and 1990 earnings per share was to reduce earnings by approximately $.25 per share and $.10 per share, respectively. These impacts reflect less than $.01 per share LIFO expense in 1991 versus a $.24 per share LIFO credit in 1990 related to the acquisition. Marshall Field's profitable operating contribution is offset by interest on the debt required to finance the acquisition.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars)	February 1, 1992	February 2, 1991
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 96**	$ 92
Accounts receivable	**1,430**	1,407
Merchandise inventories	**2,381**	2,016
Other	**125**	143
Total Current Assets	**4,032**	3,658
Property and Equipment		
Property and equipment	**6,961**	6,133
Accumulated depreciation	**(1,859)**	(1,608)
Net Property and Equipment	**5,102**	4,525
Other	**351**	341
Total Assets	**$9,485**	$8,524
LIABILITIES AND COMMON SHAREHOLDERS' INVESTMENT		
Current Liabilities		
Commercial paper	**$ 265**	$ 104
Accounts payable	**1,324**	1,267
Accrued liabilities	**705**	638
Income taxes payable	**98**	160
Current portion of long-term debt	**188**	253
Total Current Liabilities	**2,580**	2,422
Long-Term Debt	**4,227**	3,682
Deferred Income Taxes and Other	**381**	347
Convertible Preferred Stock	**377**	379
Loan to ESOP	**(311)**	(354)
Common Shareholders' Investment		
Common stock	**71**	71
Additional paid-in capital	**51**	41
Retained earnings	**2,109**	1,936
Total Common Shareholders' Investment	**2,231**	2,048
Total Liabilities and Common Shareholders' Investment	**$9,485**	$8,524

The financial statements should be read in conjunction with the Notes and Analysis contained throughout pages 21-33.

(Millions of Dollars, Except Per-Share Data)

CASH EQUIVALENTS

Cash equivalents represent short-term investments with a maturity of three months or less at the time of purchase. Short-term investments are recorded at cost, which approximates market.

ACCOUNTS RECEIVABLE

Customer accounts receivable are classified as current assets and include some which are due after one year, consistent with industry practice. Accounts receivable generally are written off when any portion of the balance is 12 months past due, or when the required payments have not been received for six consecutive months. The allowance for doubtful accounts was $46 million and $44 million at year-end 1991 and 1990, respectively.

INVENTORIES

Inventories and the related cost of sales are accounted for by the retail inventory accounting method using the last-in, first-out (LIFO) basis. Under this method, the cost of goods sold, as reported in the Consolidated Results of Operations, represents current cost, thereby reflecting the effect of changing prices. The accumulated LIFO provision was $162 million and $200 million at year-end 1991 and 1990, respectively. (See page 32 for further discussion of LIFO provision.)

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated depreciation. For financial reporting, depreciation on property is computed using the straight-line method over estimated useful lives. Accelerated depreciation methods generally are used for income tax purposes.

Property and Equipment	**February 1, 1992**	February 2, 1991
Land	**$ 897**	$ 723
Buildings and improvements	**3,883**	3,455
Fixtures and equipment	**1,983**	1,745
Construction-in-progress	**198**	210
Property and equipment	**$6,961**	$6,133

ACCOUNTS PAYABLE

Outstanding drafts included in accounts payable were $344 million and $296 million at year-end 1991 and 1990, respectively.

COMMITMENTS AND CONTINGENCIES

Commitments for the purchase of real estate, construction of new facilities, remodeling of existing facilities and other equipment purchases amounted to approximately $203 million at February 1, 1992.

Regular contact with the general public, other businesses and governmental entities subjects the Corporation to claims and litigation arising out of the ordinary course of business. Considering the insurance coverage in place for a portion of the claims and litigation, and noting that the ultimate consequences cannot be accurately predicted, management and legal counsel believe that presently identified claims and litigation will not have a material adverse effect on the Corporation's operations or its financial condition.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars)	**1991**	1990	1989
Operating Activities			
Net earnings	**$ 301**	$ 412	$410
Reconciliation to cash flow:			
Depreciation and amortization	**410**	372	319
Deferred tax provision	**34**	(20)	(10)
Other noncash items affecting earnings	**14**	36	(5)
Changes in operating accounts providing/(requiring) cash:			
Accounts receivable	**(23)**	(116)	91
Merchandise inventories	**(365)**	(36)	(158)
Accounts payable	**57**	8	110
Accrued liabilities	**67**	(15)	(29)
Income taxes payable	**(62)**	(13)	33
Other	**4**	(3)	(22)
Cash Flow Provided by Operations	**437**	625	739
Investing Activities			
Expenditures for property and equipment	**1,009**	678	619
Acquisition of Marshall Field's	**–**	1,054	–
Disposals of property and equipment	**(19)**	(2)	(234)
Cash Flow Required for Investing Activities	**990**	1,730	385
Net Financing (Requirements)/Sources	**(553)**	(1,105)	354
Financing Activities			
Increase/(decrease) in commercial paper	**161**	(130)	86
Additions to long-term debt	**756**	1,502	242
Reduction of long-term debt	**(280)**	(165)	(125)
Reduction of loan to ESOP	**49**	27	–
Dividends paid	**(128)**	(116)	(85)
Repurchase of common stock	**–**	–	(440)
Other	**(1)**	(24)	18
Cash Flow Provided/(Used) by Financing Activities	**557**	1,094	(304)
Net Increase/(Decrease) in Cash and Cash Equivalents	**4**	(11)	50
Cash and Cash Equivalents at Beginning of Year	**92**	103	53
Cash and Cash Equivalents at End of Year	**$ 96**	$ 92	$103

Amounts in these statements are presented on a cash basis and therefore may differ from those shown in other sections of this annual report. The 1989 reconciliation of net earnings to cash flow and disposals of property includes the sale of Lechmere.

The financial statements should be read in conjunction with the Notes and Analysis contained throughout pages 21-33.

(Millions of Dollars, Except Per-Share Data)

LINES OF CREDIT

At year-end, $795 million of credit facilities were available in the form of three revolving credit agreements from various lending institutions. A fee is paid for the availability under these agreements and an option is available to borrow at the prime rate or other negotiated rates. Fees paid under these agreements were $2 million in 1991 and 1990 and $1 million in 1989. There were no balances outstanding at February 1, 1992.

COMMERCIAL PAPER

At February 1, 1992, $465 million in commercial paper was outstanding at a weighted average interest rate of 4.2%, including $200 million classified as long-term debt. The average amount of commercial paper outstanding during the year was $365 million, at a weighted average interest rate of 5.7%.

Interest rate swaps were used to reduce interest rate risk by effectively fixing rates on $200 million of variable-rate commercial paper. Long-term revolving credit agreements supported the commercial paper. The Corporation intends the credit agreements to remain in effect for a period beyond one year.

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest (including interest capitalized) and income tax payments were as follows:

Supplemental Cash Flow Information	1991	1990	1989
Interest paid	**$389**	$327	$269
Income tax payments	**200**	257	248

Noncash investing and financing activities not reported in the Statements of Cash Flows include the 1989 issuance of $379 million of ESOP preferred stock in consideration for a 15-year note from the ESOP.

LONG-TERM DEBT

During 1991, $756 million of long-term debt was issued with due dates of 1998 to 2021 at rates ranging from 8.3% to 9.7%.

At year-end 1991 and 1990, long-term debt due beyond one year was:

Long-Term Debt	February 1, 1992	February 2, 1991
Commercial paper backed by revolving credit	**$ 200**	$ 200
7⅞% to 10¾% unsecured notes and sinking fund notes and debentures due 1993 to 2021	**3,847**	3,294
Other debt	**65**	73
Capital lease obligations	**115**	115
Total	**$4,227**	$3,682

Required principal payments on long-term debt over the next five years, excluding commercial paper and capital lease obligations, will be $182 million in 1992, $248 million in 1993, $148 million in 1994, $251 million in 1995 and $260 million in 1996.

Subsequent to year end, $50 million of 6.1% notes due 1992 to 1996 were issued. Interest rate swaps were used to effectively change the interest rate from a fixed to a floating rate.

As a condition of certain borrowings, related land, buildings and equipment have been pledged as collateral. At year end, approximately $81 million of property and equipment served as collateral for these loans.

LEASES

Leases are classified as either operating or capital leases. Capital leases are included in Property and Equipment in the Statements of Financial Position. Operating leases are not capitalized and lease rentals are expensed.

Many of the long-term leases include options to renew, with renewal terms varying from five to 30 years. Certain leases also include options to purchase the property. Future minimum lease payments required under noncancellable lease agreements existing at the end of 1991 were:

Future Minimum Lease Payments	Operating	Capital
1992	$ 71	$ 20
1993	70	20
1994	69	19
1995	67	19
1996	65	18
After 1996	569	179
Total future minimum lease payments	911	275
Less: Interest*	(462)	(148)
Executory costs	(38)	(6)
Present value of minimum lease payments	$411	$121**

*Calculated using the average interest rate in the year of inception for each lease (weighted average interest rate–10%).

**Includes current portion of $6 million.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' INVESTMENT

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
January 28, 1989	$78	$25	$1,758	$1,861
Consolidated net earnings	–	–	410	410
Dividends declared	–	–	(87)	(87)
Stock option activity	–	9	–	9
Stock repurchase	(7)	–	(433)	(440)
February 3, 1990	71	34	1,648	1,753
Consolidated net earnings	–	–	412	412
Dividends declared	–	–	(124)	(124)
Stock option activity	–	7	–	7
February 2, 1991	71	41	1,936	2,048
Consolidated net earnings	–	–	301	301
Dividends declared	–	–	(128)	(128)
Stock option activity	–	8	–	8
Conversion of preferred stock	–	2	–	2
February 1, 1992	**$71**	**$51**	**$2,109**	**$2,231**

Preferred Stock

Authorized 5,000,000 shares. Series B ESOP Convertible Preferred Stock $.01 par value: 436,342 shares issued and outstanding at February 1, 1992; 438,124 shares issued and outstanding at February 2, 1991. Each share converts into ten shares of the Corporation's common stock; has voting rights equal to the equivalent number of common shares; and is entitled to cumulative annual dividends of $56.20. Under certain circumstances, the shares may be redeemed at the election of the Corporation or the ESOP.

Common Stock

Authorized 500,000,000 shares, $1.00 par value, 71,235,274 shares issued and outstanding at February 1, 1992; 71,061,854 shares issued and outstanding at February 2, 1991. During 1989, 7 million common shares were repurchased at a price of $62⅞ per share.

Junior Preferred Stock Rights

The Corporation declared a distribution of shares of preferred share repurchase rights in 1986. Terms of the plan provide for a distribution of one preferred share purchase right for each outstanding share of Dayton Hudson common stock. Each right will entitle shareholders to buy one-hundredth of a share of a new series of junior participating preferred stock at an exercise price of $150, subject to adjustment. The rights will be exercisable only if a person or group acquires ownership of 20% or more of Dayton Hudson common stock or announces a tender offer to acquire 30% or more of the common stock.

The financial statements should be read in conjunction with the Notes and Analysis contained throughout pages 21-33.

(Millions of Dollars, Except Per-Share Data)

STOCK OPTIONS AND PERFORMANCE SHARES

The Corporation has a stock option plan for key employees. Grants have included stock options, performance shares or both. Options have included Incentive Stock Options, Non-Qualified Stock Options or a combination of the two. Twelve months after the grant date, 25% of the majority of options granted become exercisable with another 25% becoming exercisable each succeeding 12 months. These options are cumulatively exercisable and expire no later than 10 years after the date of the grant. Stock options are awarded at fair market value on the grant date and when exercised, proceeds are credited to common shareholders' investment and no expense is incurred.

Performance shares pay cash and stock if certain pre-selected performance goals are met at the end of a four-year period. Compensation expense on performance shares is recorded based on the current market price of the Corporation's common stock and the extent to which the performance goals are being met. Expense of $1 million, $3 million and $2 million was recorded in 1991, 1990 and 1989, respectively.

The number of shares of unissued common stock reserved for future grants under the plan was 3,625,333 at the end of 1991 and 3,804,464 at the end of 1990.

Options and Performance Shares Outstanding

	Options			
	Number of Shares	Price Per Share	Shares Exer-cisable	Perform-ance Shares
January 28, 1989	1,177,333	$ 9.97 – $53.25	740,593	138,868
Granted	240,111	46.63 – 62.56		
Cancelled	(55,674)	30.25 – 53.19		
Exercised	(263,885)	9.97 – 53.19		
February 3, 1990	1,097,885	12.36 – 62.56	634,249	174,556
Granted	174,679	69.56 – 75.50		
Cancelled	(3,034)	35.19 – 53.00		
Exercised	(197,181)	12.36 – 53.19		
February 2, 1991	1,072,349	14.30 – 75.50	571,948	219,091
Granted	190,513	73.81 – 75.19		
Cancelled	(49,706)	30.25 – 75.50		
Exercised	(141,990)	14.30 – 69.56		
February 1, 1992	**1,071,166**	**$17.44 – $75.50**	**561,774**	**190,215**

PENSION PLANS

The Corporation has three defined benefit pension plans which cover all employees who meet certain requirements of age, length of service and hours worked per year. The benefits provided are based upon years of service and the employee's compensation.

Contributions to the pension plans, which are made solely by the Corporation, are determined by an outside actuarial firm. To compute net pension cost, the actuarial firm estimates the total benefits which will ultimately be paid to eligible employees and then allocates these costs to service periods.

The period over which unrecognized pension costs and credits are amortized, including prior service costs and actuarial gains and losses, is based on the remaining service period for those employees expected to receive pension benefits.

Components of Net Pension Expense/(Credit)	1991	1990	1989
Service cost-benefits earned during the period	**$18**	$15	$11
Interest cost on projected benefit obligation	**26**	24	22
Return on assets – actual	**(79)**	4	(55)
– deferred	**50**	(33)	28
Amortization of transitional asset	**(7)**	(7)	(8)
Net pension expense/(credit)	**$ 8**	$ 3	$ (2)

Actuarial Assumptions	1991	1990	1989
Discount rate	**8.5%**	8.8%	8.8%
Expected long-term rate of return on plan assets	**9.5**	9.5	9.5
Average assumed rate of compensation increase	**7.0**	7.0	7.0

Funded Status	December 31, 1991	1990
Actuarial present value of:		
Vested benefit obligation	**$270**	$216
Accumulated benefit obligation	**$287**	$228
Projected benefit obligation	**$349**	$297
Fair market value of plan assets*	**370**	306
Plan assets in excess of projected benefit obligation	**21**	9
Unrecognized prior service cost	**5**	6
Unrecognized net actuarial (gain)/loss	**(13)**	4
Unrecognized transitional asset	–	(7)
Prepaid pension asset	**$ 13**	$ 12

*Plan assets consist primarily of equity securities and fixed income securities.

SUPPLEMENTAL RETIREMENT PLAN

The Corporation sponsors a defined contribution employee benefit plan. Employees who meet certain eligibility requirements (based primarily on age and length of employment) can participate in the plan by investing up to 15% of their compensation. The plan was enhanced to include an Employee Stock Ownership Plan (ESOP) beginning in April 1990 and increased the employer match from 50% to 100% of each employee's contribution up to 5% of total compensation. The Corporation's contribution to the plan is invested in the ESOP.

The Corporation loaned $379 million to the ESOP at a 9% interest rate with the loan maturing in 15 years. Proceeds from the loan were used by the ESOP to purchase 438,353 shares of Series B ESOP Convertible Preferred Stock of the Corporation. The original issue value of the ESOP preferred stock of $864.60 per share is guaranteed by the Corporation.

Contributions made to the ESOP, plus the dividends paid on preferred stock held by the ESOP, are used to repay the loan principal and interest. Cash contributed to the ESOP was $53 million and $40 million in 1991 and 1990, respectively. Dividends on shares held by the ESOP were $25 million in both 1991 and 1990. These dividends are deductible for income tax purposes.

Compensation expense, based on the shares allocated method, of $25 million and $17 million was recognized in 1991 and 1990, respectively. The 1989 plan expense (before implementation of the ESOP) was $11 million.

POSTRETIREMENT HEALTH CARE BENEFITS

Certain health care benefits are provided for retired employees. Employees eligible for retirement become eligible for these benefits if they meet minimum age and service requirements and agree to contribute a portion of the cost. The Corporation has the right to modify or terminate these benefits.

Accumulated Postretirement Benefit Obligation	December 31, 1991	1990
Retirees	**$54**	$48
Fully eligible active plan participants	**30**	28
Other active plan participants	**6**	10
Prior service cost	**(6)**	–
Unrecognized gain	**6**	–
Total accumulated postretirement benefit obligation	**$90**	$86

Net Periodic Cost	1991	1990
Service cost–benefits earned during the period	**$1**	$1
Interest cost on accumulated benefit obligation	**7**	7
Net cost	**$8**	$8

An increase in the cost of covered health care benefits of 17% was assumed for fiscal 1992. The rate is assumed to decrease incrementally to 8% after ten years and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, a 1% increase in the health care trend rate would increase the accumulated postretirement benefit obligation by $8 million at year-end 1991 and the net periodic cost by $1 million for the year. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 8.5% and 8.8% for 1991 and 1990, respectively.

BUSINESS SEGMENTS

Total operating profit was $910 million in 1991 as improved revenues were offset by deteriorating gross margin rates at each operating division. Target posted a 2% decline in operating profit from last year, following sixteen consecutive years of improvement. Mervyn's operating profit was 22% lower and DSD's was 8% lower than 1990.

Target's decrease in operating profit reflected solid revenue growth and expense control offset by a lower gross margin rate, primarily the result of its new value-pricing program.

Mervyn's operating profit decline was primarily due to weak revenues in California, Nevada and Arizona, where more than 60% of its business is generated. A reduced gross margin rate also contributed to the decline.

DSD's decline in operating profit primarily reflects a lower gross margin rate. An increase in revenues, due to a full year of Marshall Field's operations, partially offset this deterioration.

	1991	1990	1989*	1988	1987	1986
Revenues						
Target	**$ 9,041**	$ 8,175	$ 7,519	$ 6,331	$ 5,306	$4,355
Mervyn's	**4,143**	4,055	3,858	3,411	3,183	2,862
Department Store Division	**2,931**	2,509	1,801	1,693	1,552	1,566
Other	–	–	466	769	636	476
Total	**$16,115**	$14,739	$13,644	$12,204	$10,677	$9,259
Operating profit						
Target	**$ 458**	$ 466	$ 449	$ 341	$ 323	$ 311
Mervyn's	**284**	366	358	256	150	160
Department Store Division	**168**	183	179	159	122	166
Total	**910**	1,015	986	756	595	637
Interest expense, net	**398**	325	267	218	152	118
Corporate and other	**40**	31	41	66	44	25
Earnings before income taxes	**$ 472**	$ 659	$ 678	$ 472	$ 399	$ 494
Operating profit as a percent of revenues						
Target	**5.1%**	5.7%	6.0%	5.4%	6.1%	7.1%
Mervyn's	**6.9**	9.0	9.3	7.5	4.7	5.6
Department Store Division	**5.7**	7.3	10.0	9.4	7.9	10.6
Assets						
Target	**$ 4,393**	$ 3,722	$ 3,505	$ 2,982	$ 2,638	$2,179
Mervyn's	**2,686**	2,439	2,260	2,166	2,114	1,817
Department Store Division	**2,317**	2,261	838	808	761	739
Corporate and other	**89**	102	81	567	563	547
Total	**$ 9,485**	$ 8,524	$ 6,684	$ 6,523	$ 6,076	$5,282
Depreciation						
Target	**$ 208**	$ 190	$ 170	$ 146	$ 103	$ 76
Mervyn's	**117**	107	98	91	82	68
Department Store Division	**84**	69	34	33	30	28
Corporate and other	**1**	3	13	20	16	11
Total	**$ 410**	$ 369	$ 315	$ 290	$ 231	$ 183
Capital expenditures						
Target	**$ 605**	$ 374	$ 414	$ 457	$ 501	$ 598
Mervyn's	**303**	210	133	154	207	243
Department Store Division	**106**	1,155	37	31	49	31
Corporate and other	**2**	1	19	39	82	69
Total	**$ 1,016**	$ 1,740	$ 603	$ 681	$ 839	$ 941

*Consisted of 53 weeks.
Other includes Lechmere through September 1989.

QUARTERLY RESULTS *(Unaudited)*

The Corporation reported a solid increase in total revenues and a modest increase in comparable-store revenues in all four quarters of 1991. However, net earnings in each quarter were significantly below last year due to depressed consumer confidence and a highly competitive retail environment.

The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data. Costs directly associated with revenues, such as cost of goods sold and additional rent on leased stores, are allocated based on revenues. Certain other costs not directly associated with revenues, such as benefit plan expenses, bonuses, start-up expense and real estate taxes, are allocated evenly throughout the year.

The table below summarizes results by quarter for 1991 and 1990:

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total Year	
	1991	1990	**1991**	1990	**1991**	1990	**1991**	1990	**1991**	1990
Revenues	**$3,349**	$3,007	**$3,562**	$3.242	**$3,955**	$3,625	**$5,249**	$4,865	**$16,115**	$14,739
Gross Profit (a)	**$ 929**	$ 840	**$ 964**	$ 883	**$1,042**	$1,007	**$1,429**	$1,357	**$ 4,364**	$ 4,087
Net Earnings	**$ 34**	$ 60	**$ 40**	$ 59	**$ 35**	$ 58	**$ 192**	$ 235	**$ 301**	$ 412
Fully Diluted Earnings Per Share (b)	**$ .39**	$ .73	**$ .47**	$ .73	**$ .40**	$ .70	**$ 2.47**	$ 3.05	**$ 3.72**	$ 5.20
Fully Diluted Average Common Shares Outstanding (Millions)	**75.9**	75.7	**75.9**	75.7	**75.9**	75.6	**75.8**	75.7	**75.9**	75.7
Quarterly Dividend Declared Per Share	**$ .36**	$ .33	**$ .36**	$ .33	**$ .36**	$ .33	**$ .38**	$ .36	**$ 1.46**	$ 1.35
Common Stock Price (c)										
High	**$ 77 7/8**	$ 71 3/4	**$ 80**	$ 78 1/8	**$ 79 3/4**	$ 64 1/2	**$ 67 1/2**	$ 65 3/4	**$ 80**	$ 78 1/8
Low	**66 5/8**	61	**66 3/4**	66 3/4	**63 7/8**	47	**56 3/8**	47 3/8	**56 3/8**	47

(a) Gross profit equals revenues less cost of retail sales, buying and occupancy.

(b) Fully diluted earnings per share are computed independently for each of the quarters presented. The sum of the quarterly earnings per share may not equal the total-year amount due to the impact of changes in quarterly average shares outstanding.

(c) Dayton Hudson Corporation's common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange.

LIFO PROVISION

The following table shows the quarterly last-in, first-out (LIFO) provision and its impact on fully diluted earnings per share:

LIFO (Credit)/Expense*	1991		1990		1989	
Quarter	**Total**	**Per Share**	Total	Per Share	Total	Per Share
First	**$ 16**	**$ .13**	$15	$ .13	$ 15	$ .11
Second	**13**	**.11**	15	.12	13	.11
Third	**3**	**.02**	4	.03	4	.03
Fourth	**(70)**	**(.59)**	(3)	(.03)	(32)	(.26)
Total year	**$(38)**	**$(.32)**	$31	$ .25	$ –	$ –

*LIFO (credit)/expense per share is computed based on fully diluted average shares outstanding during each period. The sum of quarterly LIFO expense per share may not equal the total-year amount due to the impact of changes in average shares outstanding.

The allocation of LIFO expense is adjusted each quarter for changes in estimates of retail inflation rates, inventory levels and markup levels. In the fourth quarter, a final adjustment is recorded for the difference between the prior quarters' estimates and actual LIFO expense.

In fourth quarter 1991, Target adopted an internally-generated price index to estimate the change in its retail prices for use in its LIFO inventory valuation. Target's internal price index better reflects the impact of its retail price changes. This change generated a LIFO credit of $.39 per share. The cumulative and prior years' effects of this change are not determinable. Mervyn's and the Department Store Division will continue to use the Bureau of Labor Statistics' Department Stores Inventory Price Index to estimate retail price changes.

The decrease in the 1991 LIFO provision was due to Target's change to an internal price index in the fourth quarter and lower retail inflation rates at Mervyn's and the Department Store Division.

The 1990 LIFO provision was net of a LIFO credit resulting from the acquisition of Marshall Field's. In 1989, the fourth quarter LIFO credit reflects a significantly lower than anticipated retail inflation rate.

SUMMARY OF ACCOUNTING POLICIES

Consolidation. The financial statements include the accounts of Dayton Hudson Corporation and subsidiaries after elimination of material intercompany balances and transactions. All subsidiaries are wholly owned.

Fiscal Year. The fiscal year ends on the Saturday nearest January 31.

Fiscal Year	Ended	Weeks
1991	February 1, 1992	52
1990	February 2, 1991	52
1989	February 3, 1990	53

Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years.

Reclassifications. Various reclassifications have been made to the previously reported 1990 and 1989 amounts to conform with the 1991 presentation.

Board of Directors and Shareholders
Dayton Hudson Corporation

We have audited the accompanying consolidated statements of financial position of Dayton Hudson Corporation and subsidiaries as of February 1, 1992 and February 2, 1991, and the related consolidated results of operations, cash flows and common shareholders' investment for each of the three years in the period ended February 1, 1992. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dayton Hudson Corporation and subsidiaries at February 1, 1992 and February 2, 1991, and the consolidated results of their operations and cash flows for each of the three years in the period ended February 1, 1992, in conformity with generally accepted accounting principles.

As discussed in the notes to the financial statements, the Corporation changed its method of estimating retail price indices used in its LIFO inventory valuation for Target in 1991 and its methods of accounting for income taxes and postretirement health care benefits in 1990.

Ernst + Young

Minneapolis, Minnesota
March 20, 1992

SUMMARY FINANCIAL AND OPERATING DATA

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars, Except Per-Share Data)	**1991**	1990	1989(a)	1988	1987	1986	1985	1984(a)	1983	1982	1981
Income Statement Data											
Revenues	**$16,115**	14,739	13,644	12,204	10,677	9,259	8,255	7,519	6,518	5,286	4,624
Cost of retail sales, buying and occupancy	**$11,751**	10,652	9,890	8,980	7,950	6,778	5,977	5,462	4,709	3,774	3,326
Selling, publicity and administrative	**$ 2,801**	2,478	2,264	2,038	1,769	1,538	1,366	1,234	1,080	902	826
Depreciation	**$ 410**	369	315	290	231	183	158	145	123	99	85
Interest expense, net	**$ 398**	325	267	218	152	118	100	98	86	65	47
Earnings from continuing operations before income taxes	**$ 472**	659	678	472	399	494	518	453	416	358	261
Income taxes	**$ 171**	249	268	185	171	239	237	208	189	165	116
Net earnings: Continuing (b)	**$ 301**	412	410	287	228	255	281	245	227	193	145
Consolidated (c)	**$ 301**	412	410	287	228	310	284	259	246	207	173
Financial Position Data											
Working capital	**$ 1,452**	1,236	912	978	922	1,193	1,130	973	869	718	509
Property and equipment	**$ 5,102**	4,525	3,523	3,486	3,106	2,517	1,770	1,534	1,423	1,237	1,072
Total assets	**$ 9,485**	8,524	6,684	6,523	6,076	5,282	4,418	3,800	3,595	2,985	2,555
Long-term debt	**$ 4,227**	3,682	2,510	2,383	1,819	1,377	922	750	751	631	428
Convertible preferred stock	**$ 377**	379	379	–	–	–	–	–	–	–	–
Common shareholders' investment	**$ 2,231**	2,048	1,753	1,861	1,986	2,180	1,948	1,737	1,540	1,349	1,193
Per Common Share Data											
Fully diluted net earnings per share: Continuing (b)	**$ 3.72**	5.20	5.35	3.45	2.41	2.62	2.89	2.54	2.35	2.00	1.51
Consolidated (c)	**$ 3.72**	5.20	5.35	3.45	2.41	3.19	2.92	2.68	2.54	2.15	1.81
Cash dividend declared	**$ 1.46**	1.35	1.17	1.04½	.94½	.86	.78½	.69½	.62½	.57½	.52½
Market price – high	**$ 80**	78⅛	66⅜	45½	63	58½	48¾	37¾	40⅝	32⅛	15¾
Market price – low	**$ 56⅜**	47	43	31⅝	21½	40	35¼	26⅛	26¼	13½	10⅞
Common shareholders' investment	**$ 31.31**	28.82	24.73	23.97	23.15	22.38	20.04	17.90	15.91	13.98	12.41
Other Data											
Return on beginning equity (common shareholders' investment): Continuing (b)	**13.5%**	22.1	22.0	14.5	10.5	13.1	16.2	15.9	16.8	16.1	13.6
Consolidated (c)	**13.5%**	22.1	22.0	14.5	10.5	15.9	16.3	16.8	18.2	17.3	16.3
Average common shares outstanding (millions)	**71.2**	71.0	75.9	83.3	94.8	97.3	97.1	96.9	96.6	96.2	95.8
Fully diluted average common shares outstanding (millions)	**75.9**	75.7	76.6	83.3	94.8	97.3	97.1	96.9	96.6	96.2	95.8
Capital expenditures	**$ 1,016**	1,740	603	681	839	941	403	336	321	268	238
Number of stores: Target	**463**	420	399	341	317	246	226	215	205	167	151
Mervyn's	**245**	227	221	213	199	175	148	126	109	92	80
DSD	**62**	61	37	37	37	37	37	36	36	35	35
Total Stores	**770**	708	657	591	553	458	411	377	350	294	266
Total square footage (thousands)	**80,309**	73,769	65,191	58,596	55,028	45,890	42,051	38,956	36,602	31,422	29,453
Number of employees	**168,000**	161,000	144,000	128,000	134,000	111,000	98,000	101,000	94,000	85,000	80,000

The Summary Financial and Operating Data should be read in conjunction with the Financial Statements, Notes and Analysis on pages 20-33.
Per-share amounts and shares outstanding reflect two-for-one common stock splits effective July 1983 and November 1981.

(a) Consisted of 53 weeks.

(b) Includes cumulative income effect of two accounting changes, net, of $2 million ($.03 per share) in 1990. Before extraordinary item in 1986.

(c) Includes gain on sale of B. Dalton Bookseller and extraordinary charge of $32 million ($.33 per share) related to debt repurchase in 1986. Also includes discontinued operations of B. Dalton Bookseller for 1981-1986 and real estate for 1981.

DIRECTORS & MANAGEMENT

DIRECTORS

Rand V. Araskog, 60
Chairman and
Chief Executive Officer,
ITT Corporation
(diversified multinational company) (1)(3)(5)(6)

Robert A. Burnett, 64
Chairman,
Meredith Corporation
(media company engaged in printing, publishing, broadcasting and real estate) (1)(3)(4)(6)

Livio D. DeSimone, 55
Chairman and
Chief Executive Officer,
3M
(diversified manufacturer) (1)(2)(5)(6)

Roger A. Enrico, 47
Chairman and
Chief Executive Officer,
Frito-Lay, Inc.
(food manufacturer) (1)(2)(3)(6)

Roger L. Hale, 57
President and
Chief Executive Officer,
TENNANT
(industrial equipment manufacturer) (1)(4)(5)(6)

Donald J. Hall, 63
Chairman,
Hallmark Cards, Incorporated
(greeting card manufacturer) (1)(2)(4)(6)

Betty Ruth Hollander, 62
Chairman and
Chief Executive Officer,
The Omega Group, Inc.
(manufacturer of scientific measurement and control devices and systems, technical publishing, and industrial and commercial real estate development) (1)(3)(4)(6)

Michele J. Hooper, 40
President,
Alternate Site International,
a unit of
Baxter Healthcare Corporation
(health company) (1)(2)(5)(6)

Kenneth A. Macke, 53
Chairman and
Chief Executive Officer (1)

Bruce K. MacLaury, 60
President,
The Brookings Institution
(research and education organization) (1)(3)(5)(6)

Mary Patterson McPherson, 56
President,
Bryn Mawr College
(institute for higher learning) (1)(2)(4)(6)

John A. Rollwagen, 51
Chairman and
Chief Executive Officer,
Cray Research, Inc.
(manufacturer of supercomputers) (1)(3)(5)(6)

John R. Walter, 45
Chairman and
Chief Executive Officer
R.R. Donnelley & Sons Company
(printing and printing services) (1)(2)(4)(6)

Stephen E. Watson, 47
President, The Corporation
Chairman and
Chief Executive Officer,
The Department Store Division

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee
(4) Corporate Responsibility Committee
(5) Finance Committee
(6) Nominating Committee

OFFICERS

Kenneth A. Macke*+, 53
Chairman and
Chief Executive Officer

Stephen E. Watson*+, 47
President

Henry T. DeNero*+, 46
Vice Chairman

James T. Hale*+, 51
Senior Vice President,
General Counsel and Secretary

Edwin H. Wingate*+, 59
Senior Vice President,
Personnel

Ann H. Barkelew, 56
Vice President,
Public Relations

Larry E. Carlson, 48
Vice President, Area Research

Karol D. Emmerich*, 43
Vice President, Treasurer and
Chief Accounting Officer

L. Fred Hamacher, 53
Vice President, Compensation and Benefits

William E. Harder, 59
Vice President, Law, and
Assistant Secretary

William P. Hise, 55
Assistant Secretary

Jack N. Reif, 44
Assistant Treasurer

OPERATING DIVISION MANAGEMENT

TARGET
Robert J. Ulrich*+, 48
Chairman and
Chief Executive Officer

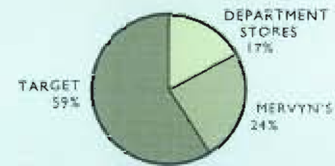
MERVYN'S
Walter T. Rossi*+, 49
Chairman and
Chief Executive Officer

DEPARTMENT STORE DIVISION
Stephen E. Watson*+, 47
Chairman and
Chief Executive Officer

* Executive Officers
+ Corporate Operating Committee Member

DH

AT A GLANCE



TARGET

TARGET

Target is an upscale discount store chain operating 463 stores in 32 states, coast to coast. Target offers low prices on a broad assortment of high-quality fashion and basic hardlines and softgoods in easy-to-shop, assisted self-service stores.

(Millions of Dollars)	1991	1990	1989
Revenues	$ 9,041	$ 8,175	$ 7,519
Operating Profit	$ 458	$ 466	$ 449
Stores	463	420	399
Retail Square Feet*	47,086	42,241	39,994

MERVYN'S

MERVYN'S

Mervyn's is a moderate-priced softlines department store chain specializing in nationally branded and top-quality private-label active and casual apparel and home softlines. The division operates 245 stores in 15 states. Mervyn's stores provide customers with value, fashion and convenience.

(Millions of Dollars)	1991	1990	1989
Revenues	$ 4,143	$ 4,055	$ 3,858
Operating Profit	$ 284	$ 366	$ 358
Stores	245	227	221
Retail Square Feet*	19,479	17,973	17,486

DEPARTMENT STORES

DAYTON'S

Marshall Field's

HUDSON'S

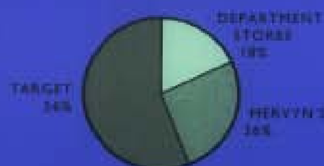
The Department Store Division emphasizes fashion leadership, quality moderate to better merchandise, broad selections and superior customer service. It currently operates three groups of department stores in nine states: 19 Dayton's stores, 20 Hudson's stores and 23 Marshall Field's stores.

(Millions of Dollars)	1991	1990	1989
Revenues	$ 2,931	$ 2,509	$ 1,801
Operating Profit	$ 168	$ 183	$ 179
Stores	62	61	37
Retail Square Feet*	13,744	13,555	7,711

*In thousands, reflects total square feet less office, warehouse and vacant space.

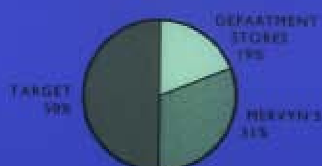
PERCENT OF TOTAL

REVENUES



PERCENT OF TOTAL

OPERATING PROFIT



TARGET LOCATIONS

NEW STORES OPENED IN THE PAST FIVE YEARS*:

217

	Retail Sq. Ft. in thousands	No. of stores
Arizona	1,344	13
Arkansas	286	3
California	11,017	106
Colorado	1,858	18
Florida	2,505	24
Georgia	1,471	15
Idaho	196	2
Illinois	861	9
Indiana	2,570	30
Iowa	1,332	16
Kansas	305	3
Kentucky	557	6
Louisiana	202	2
Michigan	3,314	32
Minnesota	3,625	31
Missouri	841	8
Montana	183	2
Nebraska	400	4
Nevada	613	6
New Mexico	315	3
North Carolina	479	5
North Dakota	386	4
Ohio	809	7
Oklahoma	780	8
Oregon	828	8
South Carolina	297	3
South Dakota	201	2
Tennessee	1,174	12
Texas	5,317	52
Washington	1,517	15
Wisconsin	1,321	12
Wyoming	182	2
Total	**47,086**	**463**

Major Markets

Greater Los Angeles	58
Minneapolis/St. Paul	23
Houston	16
Dallas/Ft. Worth	15
Detroit	15
Atlanta	14
San Francisco Bay Area	14
Denver	12
San Diego	12
Phoenix	11
Southeast Florida	10
Indianapolis	10

MERVYN'S LOCATIONS

NEW STORES OPENED IN THE PAST FIVE YEARS*:

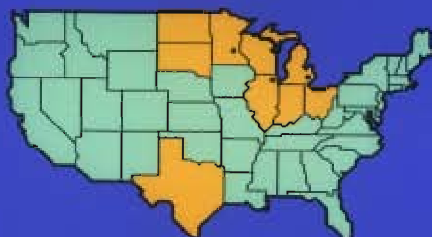
70

	Retail Sq. Ft. in thousands	No. of stores
Arizona	991	12
California	8,413	109
Colorado	850	11
Florida	1,170	13
Georgia	476	6
Idaho	83	1
Louisiana	538	7
Michigan	995	13
Nevada	412	6
New Mexico	180	2
Oklahoma	270	3
Oregon	479	6
Texas	3,093	38
Utah	531	6
Washington	998	12
Total	**19,479**	**245**

Major Markets

Greater Los Angeles	42
San Francisco Bay Area	21
Dallas/Ft. Worth	13
San Diego	10
Southeast Florida	10
Detroit	9
Houston	9
Phoenix	8
Atlanta	6
Denver	6
Sacramento	6
Salt Lake City	6
Seattle/Tacoma	6

DEPARTMENT STORE LOCATIONS



NEW STORES OPENED IN THE PAST FIVE YEARS*:

25

	Retail Sq. Ft. in thousands	No. of stores
Hudson's		
Michigan	4,218	17
Indiana	246	2
Ohio	187	1
Dayton's		
Minnesota	2,765	12
North Dakota	299	3
South Dakota	102	1
Wisconsin	349	3
Marshall Field's		
Illinois	3,944	15
Texas	721	4
Wisconsin	712	3
Ohio	201	1
Total	**13,744**	**62**

Major Markets

Chicago	14
Minneapolis/St.Paul	10
Detroit	9

TOTAL ALL STORES: 770

TOTAL RETAIL SQ. FT.: 80,309

• = Major Markets

** Net of closed stores. Includes acquisitions.*

CORPORATE INFORMATION

ANNUAL MEETING

The Annual Meeting of Shareholders is scheduled for 9:30 a.m. Wednesday, May 27, 1992, at The Children's Theatre, Minneapolis Institute of Arts, 2400 Third Avenue South, Minneapolis, Minnesota.

10-K REPORT

A copy of the Form 10-K Annual Report, filed with the Securities and Exchange Commission for Dayton Hudson's fiscal year ended February 1, 1992, is available at no charge to shareholders. Write to Director, Investor Relations at the Dayton Hudson corporate offices.

DIVIDEND REINVESTMENT PLAN

The dividend reinvestment plan is a convenient way for Dayton Hudson shareholders to acquire additional shares of the Corporation's common stock through automatic dividend reinvestment and voluntary cash purchase. All registered holders of Dayton Hudson common stock may participate. For more information, write to First Chicago Trust Company of New York, P.O. Box 3506, Church Street Station, New York, New York 10008-3506.

TRANSFER AGENT, REGISTRAR AND DIVIDEND DISBURSING AGENT

First Chicago Trust Company of New York

TRUSTEE

First Trust National Association

STOCK EXCHANGE LISTINGS *(Trading symbol DH)*

New York Stock Exchange

Pacific Stock Exchange

SHAREHOLDER ASSISTANCE

For assistance regarding individual stock records and transactions, write to First Chicago Trust Company of New York, P.O. Box 3981, Church Street Station, New York, New York 10008-3981 or call 1-800-446-2617.

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DAYTON HUDSON CORPORATION ANNUAL REPORT 1991

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